

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Mt. Forest	County Bay
Audit Date March 31, 2004	Opinion Date April 20, 2004	Date Accountant Report Submitted to State: April 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

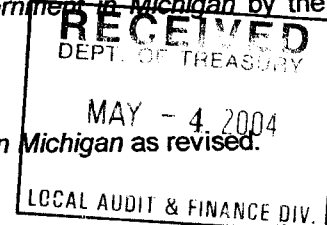
We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

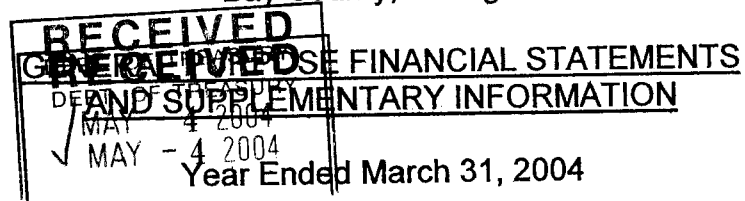
- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |



We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>			

TOWNSHIP OF MT. FOREST
Bay County, Michigan



TOWNSHIP OF MT. FOREST
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

April 20, 2004

To the Township Board
Township of Mt. Forest
Bay County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Mt. Forest, Bay County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Mt. Forest's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the general purpose financial statements.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Mt. Forest, Bay County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Mt. Forest, Bay County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Account Group</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>	<u>General Long- Term Debt</u>
<u>Assets</u>				
Cash in bank	-	31 502 36	14 82	-
Investments	155 521 11	103 279 67	-	-
Taxes receivable	3 673 81	13 196 39	-	-
Due from other funds	14 82	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	205 476 93
Total Assets	<u>159 209 74</u>	<u>147 978 42</u>	<u>14 82</u>	<u>205 476 93</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	-	14 82	-
Contracts payable	-	-	-	205 476 93
Total liabilities	-	-	14 82	205 476 93
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	159 209 74	147 978 42	-	-
Total fund equity	<u>159 209 74</u>	<u>147 978 42</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>159 209 74</u>	<u>147 978 42</u>	<u>14 82</u>	<u>205 476 93</u>

The accompanying notes are an integral part of these financial statements.

Total
(Memorandum
Only)

31 517 18
258 800 78
16 870 20
14 82

205 476 93

512 679 91

14 82

205 476 93

205 491 75

307 188 16

307 188 16

512 679 91

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 1

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues:			
Property taxes	31 747 49	64 582 74	96 330 23
Licenses and permits	2 238 00	-	2 238 00
State revenue sharing	107 628 00	-	107 628 00
Charges for services:			
Property tax administration	8 330 68	-	8 330 68
Hall rental	17 549 34	-	17 549 34
Cemetery	4 300 00	-	4 300 00
Interest	1 353 32	400 40	1 753 72
Special assessments	-	52 825 86	52 825 86
Miscellaneous	4 603 08	12 311 48	16 914 56
Total revenues	<u>177 749 91</u>	<u>130 120 48</u>	<u>307 870 39</u>
Expenditures:			
Legislative:			
Township Board	4 953 64	-	4 953 64
General government:			
Supervisor	6 784 59	-	6 784 59
Elections	165 00	-	165 00
Assessor	8 058 72	-	8 058 72
Clerk	10 017 55	-	10 017 55
Board of Review	585 00	-	585 00
Treasurer	10 935 88	-	10 935 88
Building and grounds	41 352 73	-	41 352 73
Cemetery	3 436 30	-	3 436 30
Office supplies	10 452 20	-	10 452 20
Unallocated	13 718 76	-	13 718 76
Public safety:			
Liquor law enforcement	330 00	-	330 00
Fire protection	-	17 474 88	17 474 88
Health – ambulance service	1 433 00	-	1 433 00
Zoning	2 790 00	-	2 790 00
Public works:			
Highways and streets	18 330 00	-	18 330 00
Street lighting	726 55	-	726 55
Sanitation	-	53 291 34	53 291 34

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 2

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Expenditures: (continued)			
Other:			
Insurance	11 701 50	-	11 701 50
Retirement	6 407 94	-	6 407 94
Debt service	<u>9 509 34</u>	<u>20 406 98</u>	<u>29 916 32</u>
Total expenditures	<u>161 688 70</u>	<u>91 173 20</u>	<u>252 861 90</u>
Excess of revenues over expenditures	<u>16 061 21</u>	<u>38 947 28</u>	<u>55 008 49</u>
Other financing sources (uses):			
Operating transfers in	-	5 522 98	5 522 98
Operating transfers out	<u>-</u>	<u>(5 522 98)</u>	<u>(5 522 98)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	16 061 21	38 947 28	55 008 49
Fund balances, April 1	<u>143 148 53</u>	<u>109 031 14</u>	<u>252 179 67</u>
Fund Balances, March 31	<u>159 209 74</u>	<u>147 978 42</u>	<u>307 188 16</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C

Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	32 425 00	31 747 49	(677 51)
Licenses and permits	1 550 00	2 238 00	688 00
State revenue sharing	105 330 00	107 628 00	2 298 00
Charges for services:			
Property tax administration	8 000 00	8 330 68	330 68
Hall rental	12 000 00	17 549 34	5 549 34
Cemetery	1 500 00	4 300 00	2 800 00
Interest	1 500 00	1 353 32	(146 68)
Special assessments	-	-	-
Miscellaneous	<u>2 515 00</u>	<u>4 603 08</u>	<u>2 088 08</u>
Total revenues	<u>164 820 00</u>	<u>177 749 91</u>	<u>12 929 91</u>
Expenditures:			
Legislative:			
Township Board	5 500 00	4 953 64	(546 36)
General government:			
Supervisor	7 000 00	6 784 59	(215 41)
Elections	1 000 00	165 00	(835 00)
Assessor	8 500 00	8 058 72	(441 28)
Clerk	11 000 00	10 017 55	(982 45)
Board of Review	2 500 00	585 00	(1 915 00)
Treasurer	11 000 00	10 935 88	(64 12)
Building and grounds	50 000 00	41 352 73	(8 647 27)
Cemetery	5 000 00	3 436 30	(1 563 70)
Office supplies	18 000 00	10 452 20	(7 547 80)
Unallocated	40 457 21	13 718 76	(26 738 45)
Public safety:			
Liquor law enforcement	330 00	330 00	-
Fire protection	-	-	-
Health – ambulance service	3 500 00	1 433 00	(2 067 00)
Zoning	5 000 00	2 790 00	(2 210 00)
Public works:			
Highways and streets	90 000 00	18 330 00	(71 670 00)
Street lighting	800 00	726 55	(73 45)
Sanitation	-	-	-

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
65 956 00	64 582 74	(1 373 26)
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	400 40	400 40
17 117 58	52 825 86	35 708 28
-	12 311 48	12 311 48
<u>83 073 58</u>	<u>130 120 48</u>	<u>47 046 90</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
98 849 84	17 474 88	(81 374 96)
-	-	-
-	-	-
-	-	-
-	-	-
57 138 41	53 291 34	(3 847 07)

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS
Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures: (continued)			
Culture and recreation:			
Recreation	15 000 00	-	(15 000 00)
Other:			
Insurance	12 000 00	11 701 50	(298 50)
Retirement	7 500 00	6 407 94	(1 092 06)
Debt service	10 000 00	9 509 34	(490 66)
Total expenditures	<u>304 087 21</u>	<u>161 688 70</u>	<u>(142 398 51)</u>
Excess (deficiency) of revenues over expenditures	<u>(139 267 21)</u>	<u>16 061 21</u>	<u>155 328 42</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(139 267 21)</u>	<u>16 061 21</u>	<u>155 328 42</u>
Fund balances, April 1	<u>139 267 21</u>	<u>143 148 53</u>	<u>3 881 32</u>
Fund Balances, March 31	<u>-</u>	<u>159 209 74</u>	<u>159 209 74</u>

The accompanying notes are an integral part of these financial statements.

Special Revenue Funds

<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
-	-	-
<u>21 000 00</u>	<u>20 406 98</u>	<u>(593 02)</u>
<u>176 988 25</u>	<u>91 173 20</u>	<u>(85 815 05)</u>
<u>(93 914 67)</u>	<u>38 947 28</u>	<u>132 861 95</u>
-	5 522 98	5 522 98
<u>-</u>	<u>(5 522 98)</u>	<u>(5 522 98)</u>
<u>-</u>	<u>-</u>	<u>-</u>
(93 914 67)	38 947 28	132 861 95
<u>93 914 67</u>	<u>109 031 14</u>	<u>15 116 47</u>
<u>-</u>	<u>147 978 42</u>	<u>147 978 42</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Mt. Forest, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Mt. Forest. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt which is not recorded in other funds.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County delinquent tax rolls. The Township 2003 tax roll millage rate was 3.61 mills and the taxable value was \$26,718,480.00.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Fixed Assets

Purchases of general fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. The General Fixed Assets Group of Accounts as required by generally accepted accounting principles has not been established.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount are recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 2 – Deposits and Investments (continued)

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>31 517 18</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	31 518 48
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>31 518 48</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 2 – Deposits and Investments (continued)

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized: Financial Institution Pooled Funds				<u>258 800 78</u>
Total Investments				<u>258 800 78</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 3 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>14 82</u>	Current Tax Collection	<u>14 82</u>
Total	<u>14 82</u>	Total	<u>14 82</u>

Note 4 – Interfund Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Fire Equipment	<u>5 522 98</u>	Fire Operating	<u>5 522 98</u>
Total	<u>5 522 98</u>	Total	<u>5 522 98</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 5 – Changes in General Long-Term Debt

A summary of changes in general long-term debt follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
Fire truck contract payable	142 562 85	-	12 722 84	129 840 01
Building contract payable	<u>80 742 84</u>	<u>-</u>	<u>5 105 92</u>	<u>75 636 92</u>
Totals	<u>223 305 69</u>	<u>-</u>	<u>17 828 76</u>	<u>205 476 93</u>

Note 6 – Fire Truck Contract Payable

On April 17, 2002, the Township purchased a new 2002 Pierre International Fire Truck for \$209,635.00. The purchase was financed with an installment agreement requiring an initial payment of \$55,000.00 and ten annual payments of \$20,406.98 including interest at the rate of 5.39% per annum. As of March 31, 2004, \$129,840.01 of the principal remained outstanding and it is recorded in the General Long-Term Debt Account Group.

Note 7 – Building Contract Payable

On September 22, 1998, the Township obtained financing in the amount of \$99,500.00 to partially fund the construction of an addition to the Township hall. The installment purchase agreement requires fifteen annual payments of principal and interest at the rate of 5.45% per annum. As of March 31, 2004, \$75,636.93 of the principal remained outstanding and it is recorded in the General Long-Term Debt Account Group.

Note 8 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 9 – Retirement Plan

The Township has a retirement plan that covers all full-time employees of the Township. Under the plan, the Township contributes amounts based on the employees' annual earnings for the purchase of annuities. Employees may contribute an additional 10% of their compensation on a voluntary basis. The Township's retirement payments were \$6,407.94 during the year ended March 31, 2004.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2004

Note 10 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Building Permits

The Township of Mt. Forest does not issue building permits. Building permits are issued by an organization named "Township Code Enforcement."

Note 12 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Township Board:	
Salaries	4 800 00
Mileage	<u>153 64</u>
	<u>4 953 64</u>
 Supervisor:	
Salary	6 600 00
Mileage	<u>184 59</u>
	<u>6 784 59</u>
 Elections:	
Miscellaneous	<u>165 00</u>
 Assessor:	
Salary	<u>8 058 72</u>
 Clerk:	
Salary – Clerk	9 000 00
Salary – Deputy Clerk	900 00
Mileage	<u>117 55</u>
	<u>10 017 55</u>
 Board of Review	<u>585 00</u>
 Treasurer:	
Salary – Treasurer	9 504 00
Salary – Deputy Treasurer	720 00
Mileage	<u>711 88</u>
	<u>10 935 88</u>
 Building and grounds:	
Operations	<u>41 352 73</u>
 Cemetery:	
Repairs and maintenance	<u>3 436 30</u>
 Office supplies	<u>10 452 20</u>
 Unallocated:	
Social security	1 444 76
Contracted services	9 237 00
Miscellaneous	<u>3 037 00</u>
	<u>13 718 76</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Liquor law enforcement:	
Wages	<u>330 00</u>
Health – ambulance:	
Contracted services	<u>1 433 00</u>
Zoning:	
Per diem and expenses	<u>2 790 00</u>
Highways and streets:	
Repairs and maintenance	<u>18 330 00</u>
Street lighting:	
Utilities	<u>726 55</u>
Insurance	<u>11 701 50</u>
Retirement	<u>6 407 94</u>
Debt service	<u>9 509 34</u>
Total Expenditures	<u><u>161 688 70</u></u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2004

EXHIBIT E

	<u>Fire Operating</u>	<u>Fire Equipment</u>	<u>Residential Trash Collection</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	-	21 749 95	9 752 41	31 502 36
Investments	69 271 29	3 024 60	30 983 78	103 279 67
Taxes receivable	<u>3 601 04</u>	<u>2 400 43</u>	<u>7 194 92</u>	<u>13 196 39</u>
Total Assets	<u>72 872 33</u>	<u>27 174 98</u>	<u>47 931 11</u>	<u>147 978 42</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>72 872 33</u>	<u>27 174 98</u>	<u>47 931 11</u>	<u>147 978 42</u>
Total Liabilities and Fund Balances	<u>72 872 33</u>	<u>27 174 98</u>	<u>47 931 11</u>	<u>147 978 42</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

EXHIBIT F

Year Ended March 31, 2004

	<u>Fire Operating</u>	<u>Fire Equipment</u>	<u>Residential Trash Collection</u>	<u>Total</u>
Revenues:				
Property taxes	38 750 73	25 832 01	-	64 582 74
Interest	-	249 95	150 45	400 40
Special assessments	-	-	52 825 86	52 825 86
Miscellaneous	<u>3 811 48</u>	<u>8 500 00</u>	<u>-</u>	<u>12 311 48</u>
Total revenues	<u>42 562 21</u>	<u>34 581 96</u>	<u>52 976 31</u>	<u>130 120 48</u>
Expenditures:				
Fire protection:				
Wages	2 543 70	-	-	2 543 70
Supplies	2 221 99	-	-	2 221 99
Utilities	2 821 87	-	-	2 821 87
Insurance	8 871 50	-	-	8 871 50
Miscellaneous	1 015 82	-	-	1 015 82
Sanitation:				
Contracted services	-	-	53 291 34	53 291 34
Debt service	<u>-</u>	<u>20 406 98</u>	<u>-</u>	<u>20 406 98</u>
Total expenditures	<u>17 474 88</u>	<u>20 406 98</u>	<u>53 291 34</u>	<u>91 173 20</u>
Excess (deficiency) of revenues over expenditures	<u>25 087 33</u>	<u>14 174 98</u>	<u>(315 03)</u>	<u>38 947 28</u>
Other financing sources (uses):				
Operating transfers in	-	5 522 98	-	5 522 98
Operating transfers out	<u>(5 522 98)</u>	<u>-</u>	<u>-</u>	<u>(5 522 98)</u>
Total other financing sources (uses)	<u>(5 522 98)</u>	<u>5 522 98</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	19 564 35	19 697 96	(315 03)	38 947 28
Fund balances, April 1	<u>53 307 98</u>	<u>7 477 02</u>	<u>48 246 14</u>	<u>109 031 14</u>
Fund Balances, March 31	<u><u>72 872 33</u></u>	<u><u>27 174 98</u></u>	<u><u>47 931 11</u></u>	<u><u>147 978 42</u></u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT G

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>22 02</u>	<u>774 894 61</u>	<u>774 901 81</u>	<u>14 82</u>
Total Assets	<u>22 02</u>	<u>774 894 61</u>	<u>774 901 81</u>	<u>14 82</u>
<u>Liabilities</u>				
Due to other funds	22 02	140 849 58	140 856 78	14 82
Due to other units	<u>-</u>	<u>634 045 03</u>	<u>634 045 03</u>	<u>-</u>
Total Liabilities	<u>22 02</u>	<u>774 894 61</u>	<u>774 901 81</u>	<u>14 82</u>

TOWNSHIP OF MT. FOREST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2004

EXHIBIT H

Cash in bank – beginning of year	<u>22 02</u>
Cash receipts:	
Property tax	766 137 85
Animal licenses	715 00
Property tax administration fees	7 602 54
Interest	<u>439 22</u>
Total cash receipts	<u>774 894 61</u>
Total beginning balance and cash receipts	<u>774 916 63</u>
Cash disbursements:	
Township General Fund	36 637 37
Township Fire Operating Fund	35 149 69
Township Fire Equipment Fund	23 431 58
Township Residential Trash Collection Fund	45 638 14
Bay County	375 140 45
Bay Metro Transit Authority	18 172 69
Delta College	61 882 57
Bay Arenac Intermediate School District	120 450 71
Pinconning Area School District	56 799 86
Refunds	<u>1 598 75</u>
Total cash disbursements	<u>774 901 81</u>
Cash in Bank – End of Year	<u>14 82</u>

CAMPBELL, KUSTERER & CO., P.C.

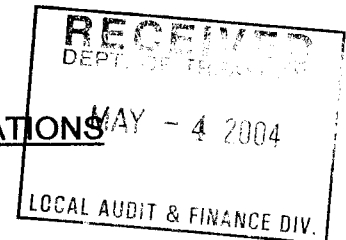
CERTIFIED PUBLIC ACCOUNTANTS

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KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



April 20, 2004

To the Township Board
Township of Mt. Forest
Bay County, Michigan

We have audited the financial statements of the Township of Mt. Forest, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Mt. Forest in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Mt. Forest
Bay County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Mt. Forest
Bay County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Mt. Forest will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants